Chapter 66

The States as Generators of Incremental Change in American Health Care Policy:
1935 to 1965

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ABSTRACT

The literature defines the role of interest groups and administration officials in the evolution of health care policy but does not acknowledge the impact of Congressional casework or the initial Social Security (OASI) eligibility criteria. There is, as a result, an inadequate appreciation for (1) the extent to which the initial development of federal policy was a function of Congressional delegations pursuing initiatives that would increase the flow of federal dollars their states could use to expand health services or (2) the way in which the regional cleavages created OASI eligibility criteria combined with the South's control of Congressional leadership positions to yield an expansion of health care for indigent people while intentionally delaying the creation of Medicare. This chapter addresses these gaps and provides a more complete picture of the way in which the incremental, unplanned evolution of federal health care policy was the product of using federal resources to diminish the states' fiscal needs and the south's capacity to temporarily control the health care agenda.

BACKGROUND

The literature relating to the evolution of federal health care financing and policy has not adequately examined the roles of the states in the growth of federal programs or the unintended effects of the initial Social Security (OASI) eligibility criteria. Although the literature has delineated the evolution of federal health care matching formulas from their origins in the public assistance programs to the establishment

of the Medicaid and Medicare programs, the analyses focus on the strategies and tactics of federal officials to the exclusion of the states and their congressional delegations. There is, as a result, inadequate understanding of the financial implications of the partnership between state officials and their congressional delegations that enabled them to increase the flow of federal funds for the purpose of advancing their states' policy goals. In similar fashion, the literature acknowledges that the initial OASI eligibility criteria created regional variations in the percentage of people aged 65 and older who received OASI benefits (Corson, 1939; Sloman, 1942; Trafton & Feinroth, 1944). However, it does not examine the impact of these patterns on the origins and composition of the Kerr-Mills Medical Assistance for the Aged (MAA) program that was the precursor to the Medicaid program (Engel, 2006; Gilman, 1998; Olson, 2010; Patel & Rushefsky, 2006; Smith & Moore, 2009; Sundquist, 1968).

To address the gaps in the literature and convey lessons arising from the American experience, the next section outlines the policymaking model for the interactions between the state and national governments. The discussion is followed by descriptions of (1) the revisions of public assistance matching formulas that were initiated by the states for the purpose of increasing the flow of federal health care dollars to the states, (2) the basis for and the regional implications of the initial OASI eligibility criteria, (3) the impact of the regional patterns on Kerr-Mills, and (4) the manner in which the preceding factors affected the development and enactment of the Medicaid and Medicare programs in 1965. The chapter's final section summarizes the findings and examine their implications for health care finance and policy.

MODEL FOR THE EXPANSION OF FEDERAL HEALTH CARE FINANCING

During the thirty years between the establishment of the public assistance matching formulas in 1935 and the enactment of the Medicare and Medicaid programs in 1965, the states' pursuit of their self-interest affected the evolution of federal health care funding for elderly and indigent citizens. Kingdon's (1995) policymaking model suggests that the state's success in placing their health care financing proposals on Congress' agenda was a function of their congressional delegations' ability to merge the problem, policy, and politics streams to take advantage of windows of opportunity (Gilman, 1998). The problem component, as defined by the states, focused on minimizing welfare dependency, i.e., providing health care services that would enable public assistance recipients to become self-sufficient. Given definition of the problem and the states' desire to limit the demands on their resources and the need for state tax increases, the states' policy was to expand the flow of federal grants-in-aid via federal matching formula revisions. As an increasing share of states availed themselves of the expansion of federal funding, there was a concomitant increase in the probability of securing Congressional support for additional matching formula revisions. The process, in other words, was self-perpetuating: an expansion in the number of states benefiting from the revised federal matching formulas enhanced the feasibility of enacting additional changes that would generate further increases in federal outlays.

The probability of achieving their policy goal was also facilitated by procedural strategies: the process of adding matching formula revisions to larger bills virtually guaranteed that congressional attention would be focused on the legislation's primary components. By deflecting the lawmakers' attention in this manner, the proponents of matching formula revisions were able to minimize the number of congressional supporters that was needed to assure passage. In addition, whenever the proposal was attached to must

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